2 REITs to Supercharge Your TFSA's Passive Income

Description

Your TFSA (Tax-Free Savings Account) is a great tool to shelter passive income like interest, dividends, or distributions from taxation. Undoubtedly, the TFSA is an invaluable tool that many Canadians may misuse. Though a majority of Canadians are aware of the ability to shelter interest through various TFSA "high-interest" savings accounts, many may not know that a better use is for shielding dividends from common stocks or even high-yielding distributions from REITs or income funds.

Indeed, the TFSA has many uses. And if you've yet to make the full contribution like so many other Canadians, you may wish to check up with the CRA (Canada Revenue Agency) to get an update on how much room you have to top up! After a rough start to the markets, it's a great time to look to some of beaten-down securities if you seek to beef up your TFSA retirement fund's exposure to equities and other "risky" assets.

TFSA investors invest, even during tough times!

With Mr. Market staring down a potential recession, it can seem dangerous out there. However, with high-quality REITs at your TFSA's core, the passive income will continue flowing your way, even amid tough times.

You must analyze a REIT's AFFO (adjusted funds from operations) stability in the face of a downturn, though. Otherwise, a distribution cut could be headed your way. Nobody wants the toxic one-two punch of a distribution cut and capital depreciation. That's why it's so critical to opt for quality over size of yield, or any other factors that beginner investors may pay too much merit to at a time like this.

Yes, higher yields are a major draw to REITs. However, chasing yield without putting in the right amount of homework can get you hurt. In this piece, we'll check out two top-notch REITs that are more than capable of securing their payouts, even as economic times get more turbulent.

SmartCentres REIT

As the name suggests, **SmartCentres REIT** (TSX:SRU.UN) is a retail REIT. Before you stop reading this article, though, you should know that Smart isn't built like most other REITs. The distribution survived the worst of the COVID crisis. Further, the REIT has embraced the digital age with open arms, with the incorporation of Penguin Pickup. Indeed, e-commerce is here to stay, but with so many strong physical retailers, it's arguable that omnichannel is the way of the future, bringing from the best of online and offline shopping.

Smart does physical really well, and its strong tenants are to thank for the firm's resilient AFFOs. If Smart survived COVID lockdowns, it can surely withstand the next economic downturn. With a mere 4.7 times trailing earnings multiple and a 6.4% yield, SRU.UN looks like one of the best bargains in the real estate space today. It's not just another retail REIT to overlook. It's a well-run play that can enrich your TFSA with secure distributions.

Granite REIT

Granite REIT (TSX:GRT.UN) is a quality industrial REIT that I've been pounding the table on, and for good reason. Shares are dirt cheap, given the calibre of properties in the firm's portfolio. Shares slid over 2% on Monday, bringing the REIT down more than 15% from its highs. With a 3.5% yield and a mere 3.7 times trailing earnings multiple, shares are being passed up by way too many in the face of a downturn.

Sure, industrial REITs will face bumps once recession hits. However, the long-term trends are still very much a friend of Granite. Further, expect management to take advantage of opportunities should they arise amid a tumble into a bear market.

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joefrenette